

Facts Sheet: 11 March

Week 35 Title Impact



The US in the Changing World Economy

11 March 1982

Impact on the OECD Countries

- For the United States, the inflation pace would decline around 2 percentage points in 1982, below what it would be at \$35 per barrel.
- US consumers would be paying \$50 billion less for energy, thereby boosting consumer spending by some 2 percent. At the same time, however, the US energy sector would no longer be a major positive factor in economic growth. On balance, real US 1982 GNP would rise about 0.7 percentage point greater than otherwise.
- The impact of the oil price decline on other OECD countries depends on changes in exchange rates between 1981 and 1982. For example, the French franc has depreciated by about as much as the assumed decline in the oil price with the result that the French continue to see a high oil price. However, for simplicity, I assume that other OECD nations will perceive the same price decline as in dollars.
- The inflation reduction in Japan will be much less than in the US (because Japan uses much less oil per unit of output than the US). Lacking any significant domestic energy production, the gains by the Japanese consumer would not be partly offset by energy industry losses, as in the US case. Thus Japanese 1982 GNP growth would be about one percent point more than it otherwise would be.

- For Europe as a whole, the inflation benefit should be a little less than for the US while the GNP increase should, as in the case of Japan, be greater--also about one percentage point over what it would have been.
- However, within Europe the oil exporters, Britain and Norway will gain less in GNP terms.
- In sum, a price decline of this magnitude will give a substantial boost to the economies of the OECD countries in mid to late 1982 and 1983.
- There would be about \$100 billion improvement in the current account positions of OECD members; the surpluses of the United States and Japan would increase some \$20 billion.
- The deterioration in the overall OPEC current account position between 1981 and 1982 would be around \$100 billion. This implies a reduction in OPEC deposits in Western banks and in their purchases of Western government securities. The resulting decline in loanable funds will create temporary financial problems for major borrowers. While eventually the liquidity positions of companies and the current account balances of countries will improve as a result of lower oil prices, firms and governments will for a few quarters have to borrow huge sums because of faltering sales and large debt service payments. This situation would temporarily help hold up interest rates.

#### Impact on Oil Exporting Countries

- Gross oil revenues of OPEC will shrink from around \$300 billion in 1981 to around \$200 billion in 1982. Most oil exporters will

have to borrow alot and/or draw on their reserves if they want to avoid a drastic cut in imports. OPEC countries that will experience serious difficulties include Indonesia, Nigeria, Algeria, Venezuela, and Libya. Non-OPEC ones that will be in trouble include Mexico and Egypt.

- By mid-year even Saudi Arabia may have to dip into its financial reserves. If it reduces oil output to 6 million barrels a day, its 1982 oil revenues will shrink by around one-half, from \$115 billion to \$60 billion. This level is below its planned level of expenditures.
- Unless the Iran-Iraq war ends, Iraq will not only see reduced revenues from oil sales, it will receive less economic aid from fellow Arab nations.
- Iran will also be seriously affected unless it can increase its oil production to, say, 2 million barrels a day. (Iran doing this will put further downward pressure on the oil price.)